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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 17, 2002

APPLICATION OF

SYDNOR HYDRODYNAMICS, INC.

and

CASE NO. PUE-1999-00532

AQUASOURCE UTILITY-VIRGINIA, INC.

For certificates of public convenience  
and necessity for the Lake Shawnee System

ORDER ADOPTING, IN PART, STAFF'S  
RECOMMENDATIONS AND DISMISSING PROCEEDING

On November 9, 1999, Sydnor Hydrodynamics, Inc. ("Sydnor"), and AquaSource Utility-Virginia, Inc. ("AquaSource Virginia" or the "Company") (collectively, "Applicants"), filed an application requesting authority to transfer the assets of the Lake Shawnee System from Sydnor to AquaSource Virginia pursuant to §§ 56-89 and 56-90 of the Code of Virginia ("Code"). The Applicants also requested certificates of public convenience and necessity ("certificate") pursuant to § 56-265.2 and § 56-265.3 of the Code.

On January 31, 2000, the State Corporation Commission ("Commission") issued an order for notice and hearing and directed AquaSource Virginia to submit certain financial information to the Commission's Division of Public Utility

Accounting on or before April 1, 2001.<sup>1</sup>

On April 25, 2000, the Commission issued an order approving the above-referenced transfer of assets, the requested certificates, and the Company's proposed rates, charges, and rules and regulations of service, subject to certain modifications recommended by Staff. In that Order, the Commission continued the case generally so that an accounting audit could be conducted after Staff had a full year's worth of financial data for the Company's operations.

Staff filed its Report on September 30, 2002, detailing its analysis of the Company's books and records.

Staff's rate of return statement, after adjustments, reflected operating revenues of \$26,176 for the nine months ending December 31, 2000, with an operating loss of (\$8,278), resulting in a -67.48% return on rate base. For the year ending December 31, 2001, Staff found operating revenues of \$31,761, with an operating loss of (\$1,096), resulting in a return on rate base of -6.39%. Based on its review, Staff found that the Company's current rates for the Lake Shawnee System are not excessive.

In its Report, Staff recommended that:

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<sup>1</sup> Such data would provide financial information for the Company's operations commencing January 1, 2000.

(1) The Company maintain its books and records for the Lake Shawnee System in accordance with the USOA for Class "C" Water Utilities;

(2) The Company make booking entries to plant, accumulated depreciation, contributions in aid of construction ("CIAC") and accumulated CIAC to reflect Staff's adjusted balances as of December 31, 2001; and

(3) The Company write off the acquisition adjustment currently included in its cost of service.

Staff also recommended that the Commission enter an order permitting the Company to continue to charge the current rates for the Lake Shawnee System and dismissing the proceeding.

In a letter dated November 21, 2002, counsel for AquaSource Virginia stated that the Company objects to Staff's recommendation No. 2 with respect to the booking of CIAC. The Company did not object to implementing Staff's recommendations Nos. 1 and 3. The Company noted, however, that such implementation does not constitute an agreement by the Company that negative returns are reasonable or that any future write-off of acquisition amounts is appropriate.

In a letter dated December 10, 2002, the Company clarified its response to Staff's recommendation No. 2. The Company stated that, while it maintains its objection to making the above-referenced booking entities, it does not object to

deferring the matter for a decision in a future case with the understanding that the Company is not required to change its CIAC booking in the interim.

NOW THE COMMISSION, having considered Staff's Report and the Company's Response, is of the opinion that Staff's recommendation Nos. 1 and 3 are reasonable and should be adopted. We will adopt Staff's recommendation No. 2 with the exception of the booking entries to CIAC. We will defer consideration of the booking of such entries until a future proceeding as requested by the Company. We will permit the Company to continue to charge its current rates for the Lake Shawnee system and dismiss this proceeding.

Accordingly, IT IS ORDERED THAT:

(1) The Company may continue to charge its current rates for the Lake Shawnee System.

(2) The Company shall implement Staff's booking recommendations with the exception of Staff's recommendation No. 2 with respect to the booking of CIAC.

(3) Consideration of the booking of CIAC shall be deferred to a future proceeding.

(4) There being nothing further to be done in this matter, it is hereby dismissed from the Commission's docket of active cases.